MONTHLY ECONOMIC WATCH

FIRST CAPITAL RESEARCH

Feb 2026

CONTENT BRIEFING

First Capital
A Janashakthi Group Company

Contents

CBSL MAINTAINS THE OVERNIGHT POLICY RATE (OPR)

- The Monetary Policy Board kept the Overnight Policy Rate (OPR) unchanged at 7.75% at the first monetary policy meeting that was held on the 27th of January 2026.

- The Board arrived at this decision after carefully considering evolving developments and the outlook on the domestic front and global uncertainties.

- CBSL is of the view that the current monetary policy stance will support steering inflation towards the target of 5.0%.

- The Board also believes that the prevailing monetary policy landscape would uphold the current growth trajectory of the Sri Lankan economy while continuing to fuel healthy growth in private sector credit.

- It was also stated that the Board remains prepared to implement appropriate policy measures to ensure that inflation stabilizes around the target, while supporting the economy to reach its potential.

- The release of the next regular statement on the monetary policy review will be on 25 March 2026.

Source: CBSL

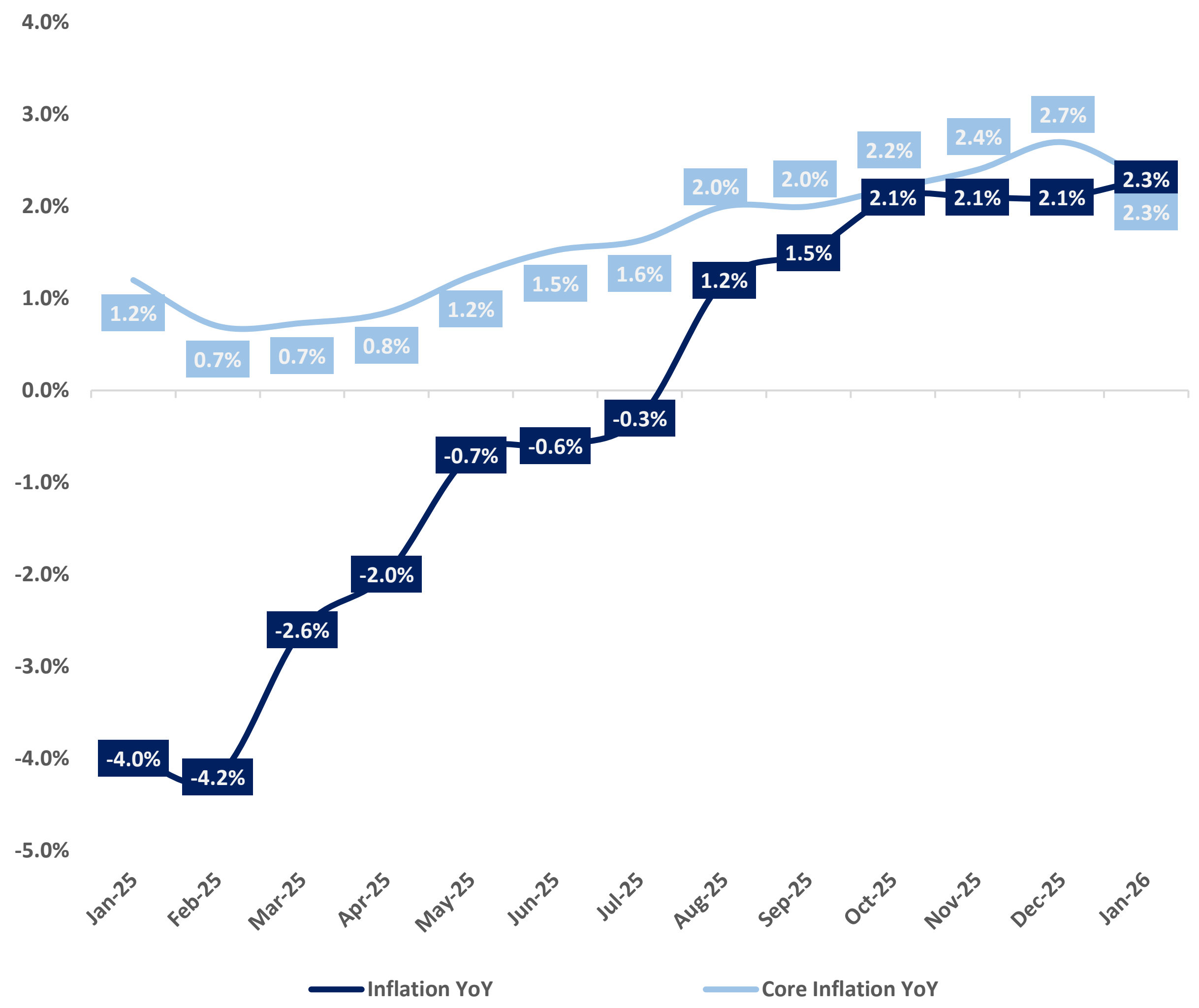
CCPI FOR JAN 2026:

MOM +0.6%

YOY +2.3%

- The CCPI for Jan-26 stood at +0.6% on a MoM basis, down from the +1.2% level seen in Dec-25. Food inflation stood at +0.6% for the month, down from the +3.9% level registered in the previous month. Non-food inflation was also +0.6% which marked an uptick from the idle 0.0% level seen in Dec-25.
- The YoY figure rose to +2.3% in Jan-26 from the +2.1% level seen across the last three consecutive months. Food inflation rose to +3.3% in Jan-26 from the +3.0% level seen previously while Non-food inflation stayed unchanged in Jan-26 at +1.8% compared to Dec-25.

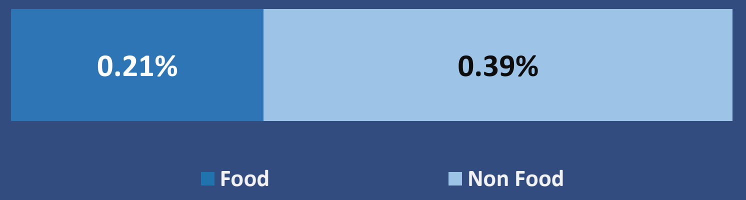
Inflation – CCPI



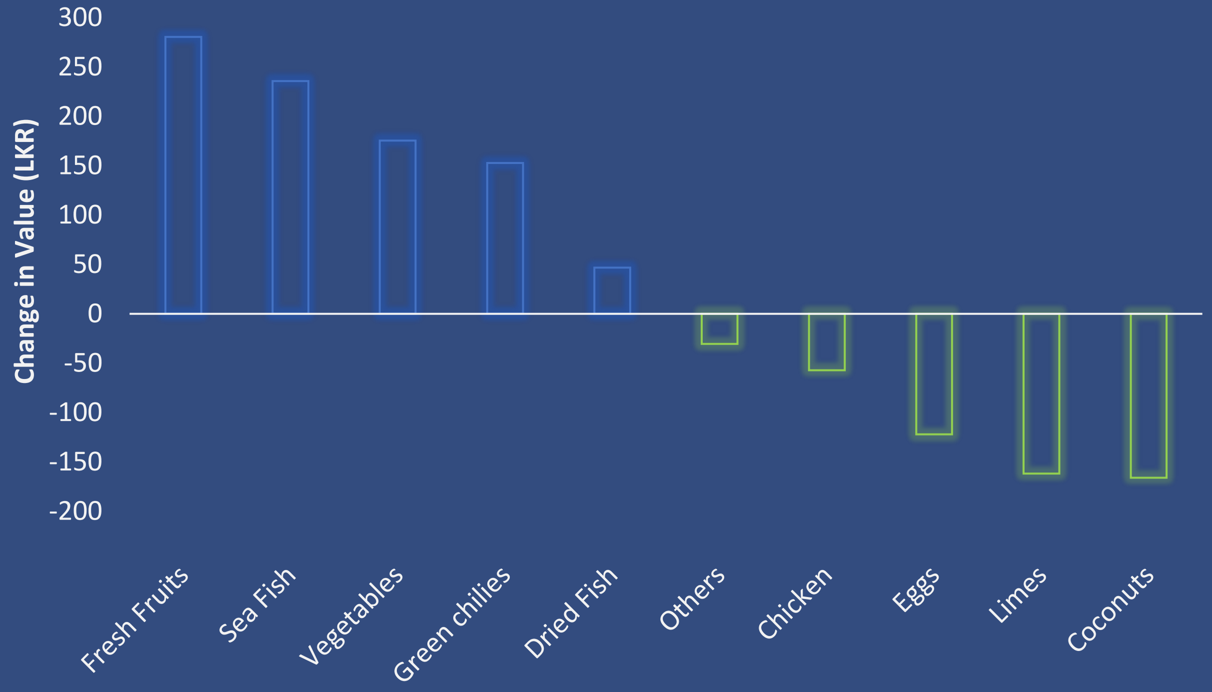
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

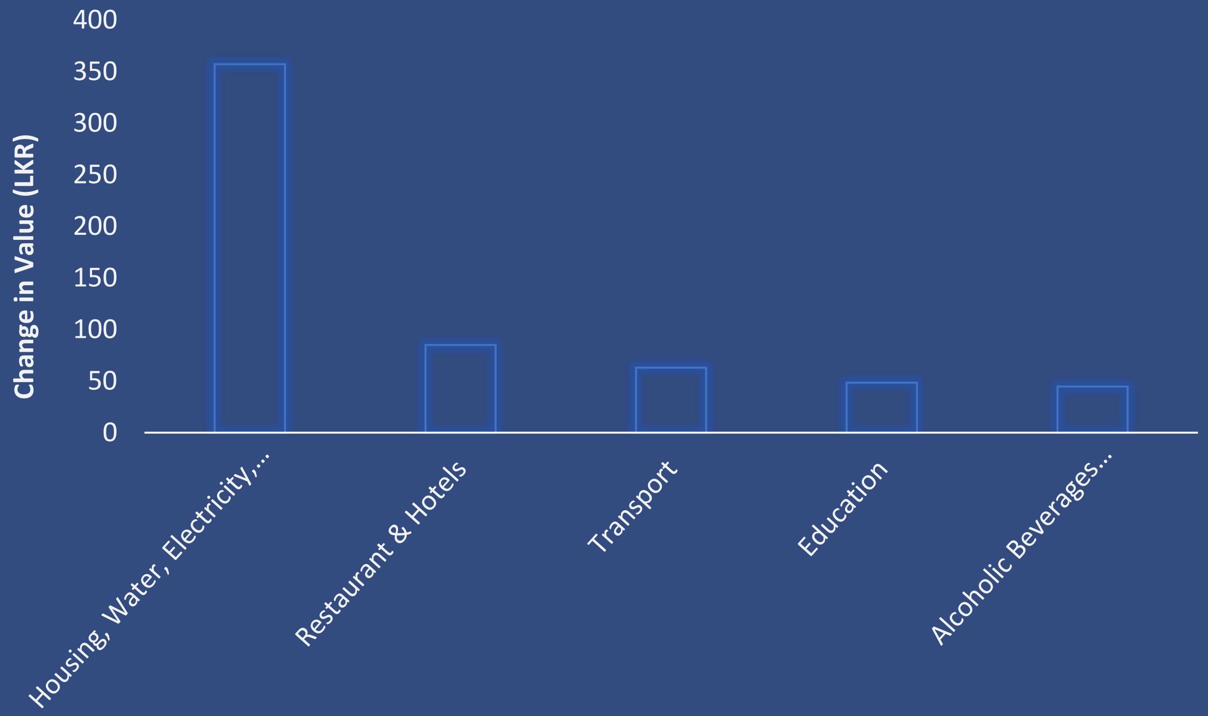
The CCPI Index for Jan-26, increased by +0.59%MoM. The Food category contributed at a +0.21% rate. Fresh Fruits, Sea Fish and Vegetables showcased noteworthy price increases while Coconuts, Limes and Eggs exerted significant downward pressure. Contribution of the Non-food category was +0.39% . All sub-components within the Non-Food segment rose during Jan-26, while Housing, Water, Electricity, Gas & Other Fuels, Restaurant & Hotels and Transport registered the highest upticks.



Food Category Inflation



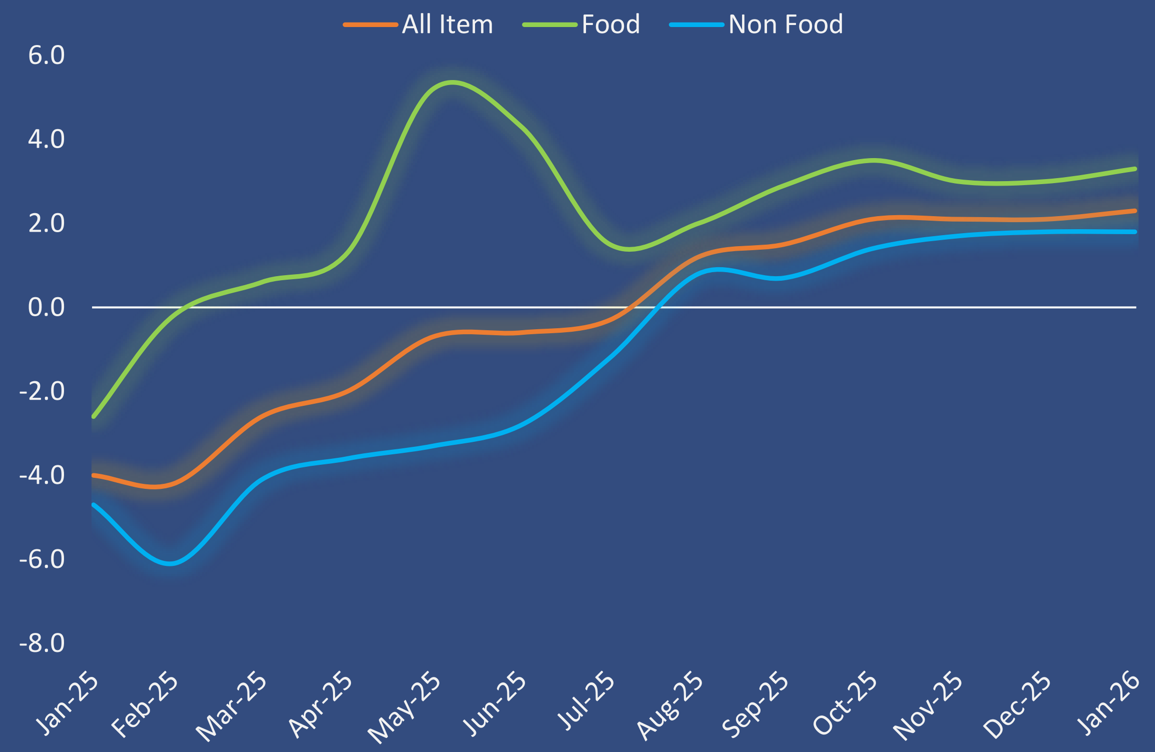
Non-Food Category Inflation



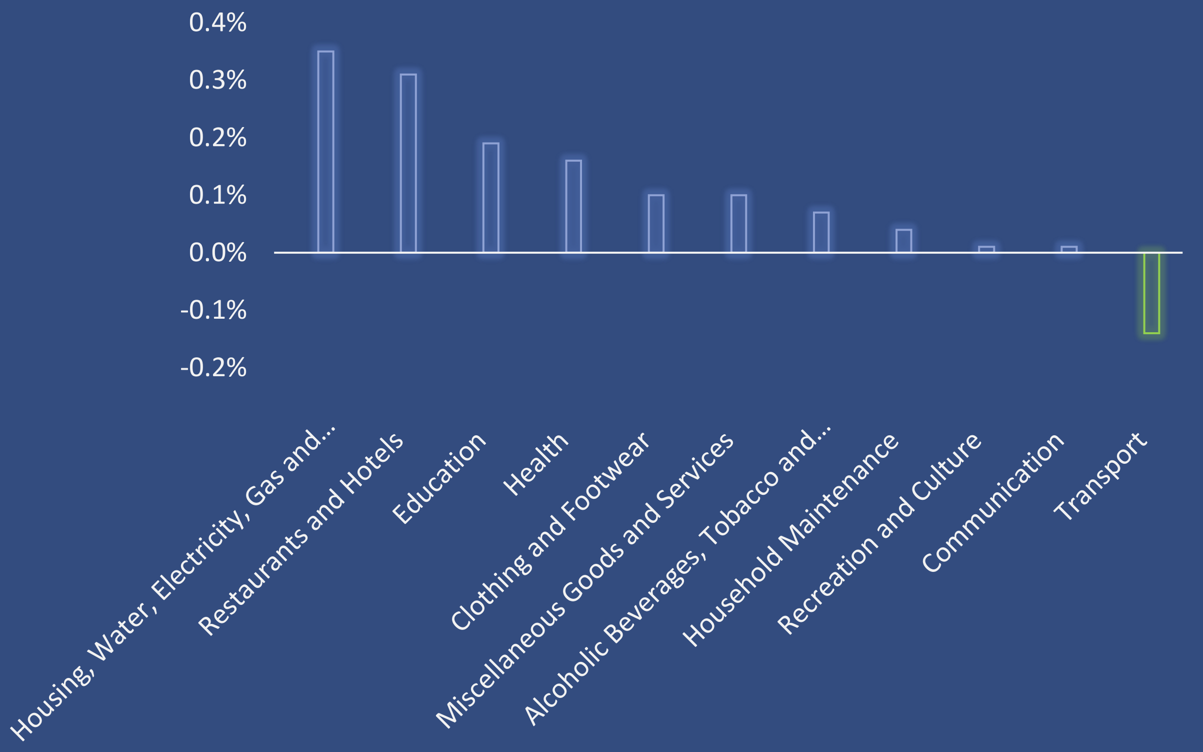
INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jan-26 stood at +2.3%, which marked an uptick from the +2.1% level that was seen across the past three consecutive months. Contribution of Food inflation stood at +1.07% while that of Non-food was +1.21%. Within the Non-food segment Housing, Water, Electricity, Gas and Other Fuels, Restaurants and Hotels and Education registered the highest upticks while Transport emerged as the only component that exerted deflationary pressure.

Inflation Analysis (YoY)



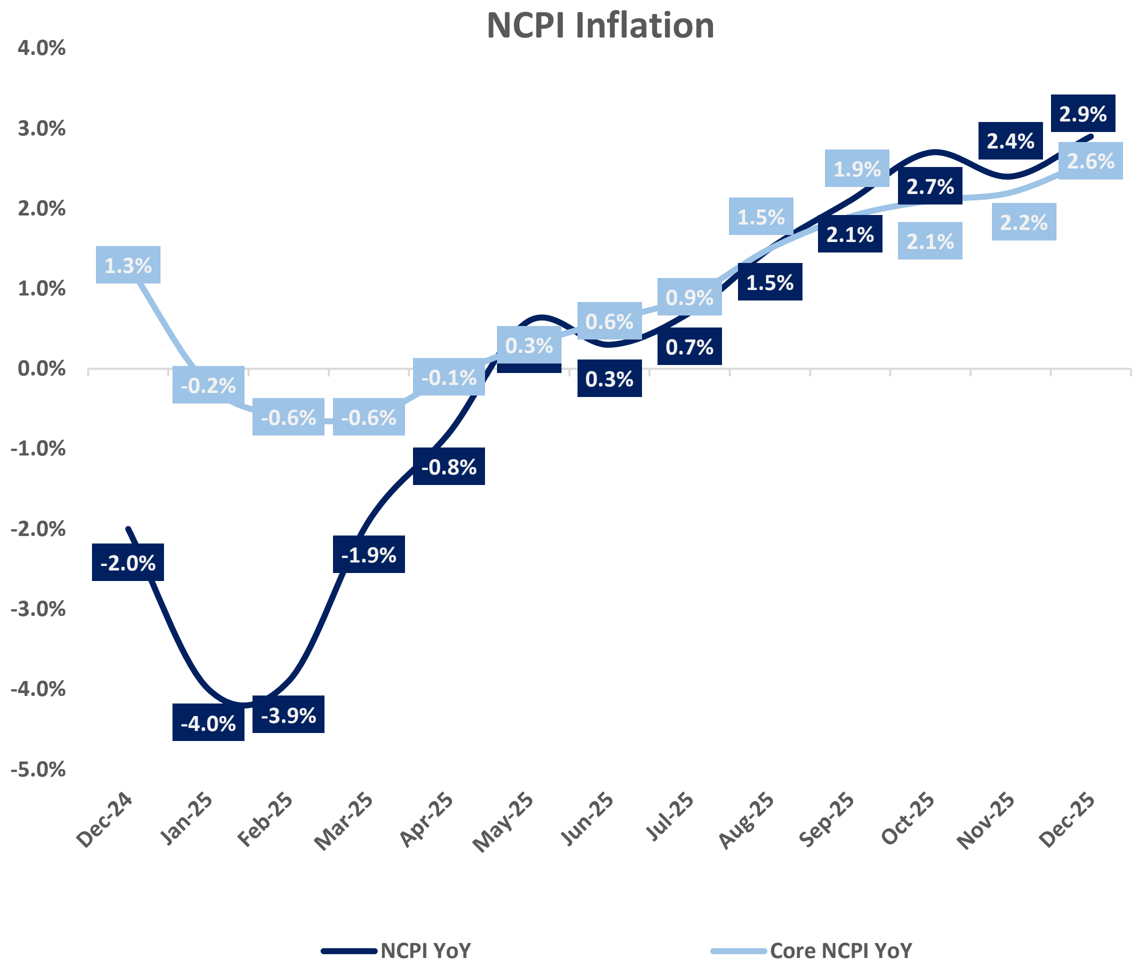
Non-Food Category Inflation



NCPI FOR DEC 2025: INCREASED TO +2.9% YOY

- NCPI for Dec-25, rose to +2.9% from +2.4% seen in Nov-25.
- This trend was driven by an uptick in Food inflation, which rose to +4.4% in Dec-25, from the +3.6% level seen in the previous month. Non-food inflation also registered a modest increase to +1.6% in Dec-25, from +1.5% recorded in Nov-25.

Inflation – NCPI



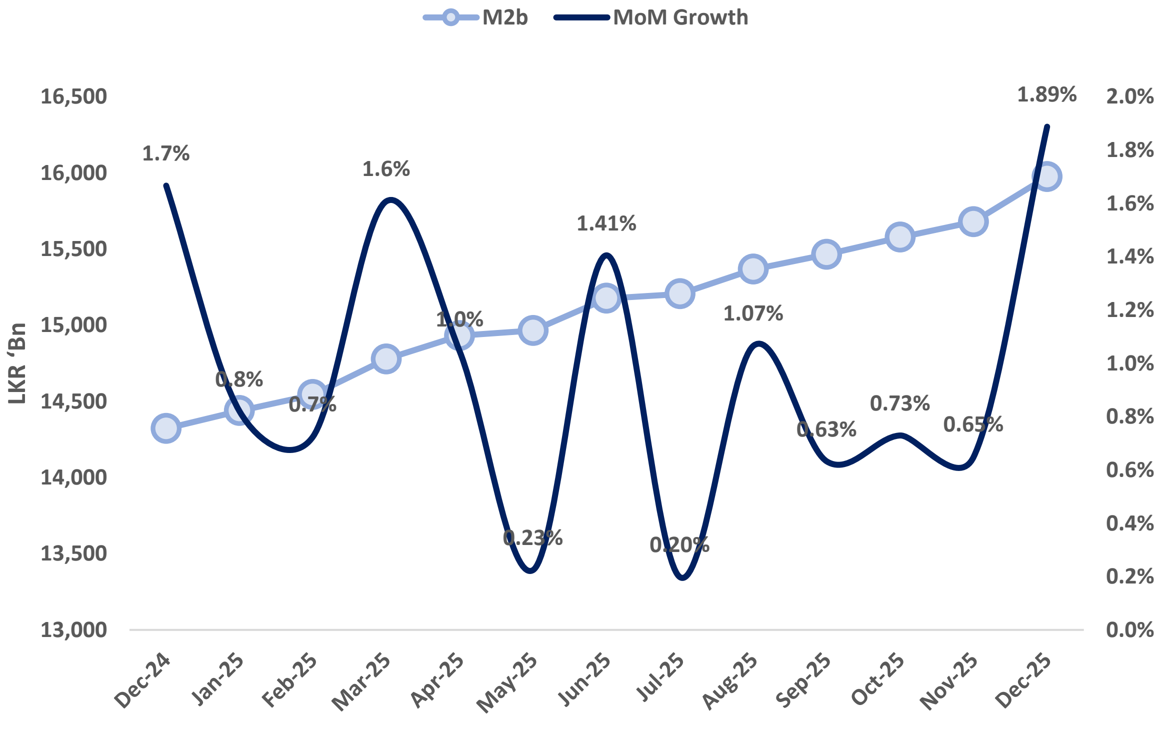
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 182.8Bn in Dec-25. Credit to the public sector also rose by LKR 105.2Bn in Dec-25 following four consecutive months of contraction.

M2b Growth – Dec 2025

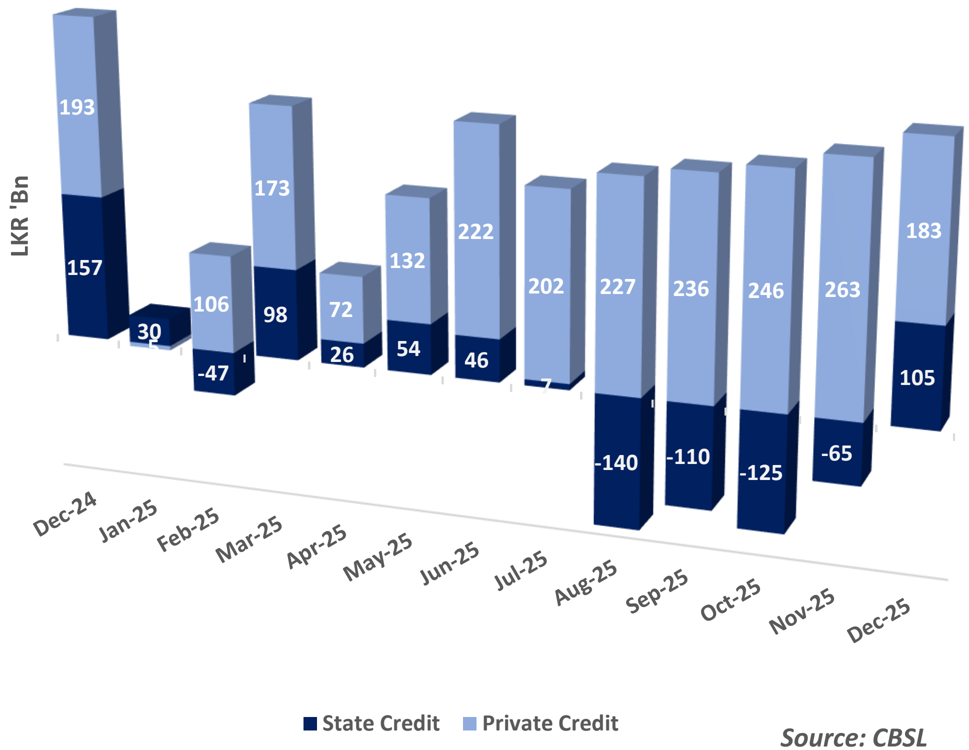
MoM +1.9%, YoY +11.5%, YTD +11.5%



Source: CBSL

State Credit & Private Credit – Dec 2025

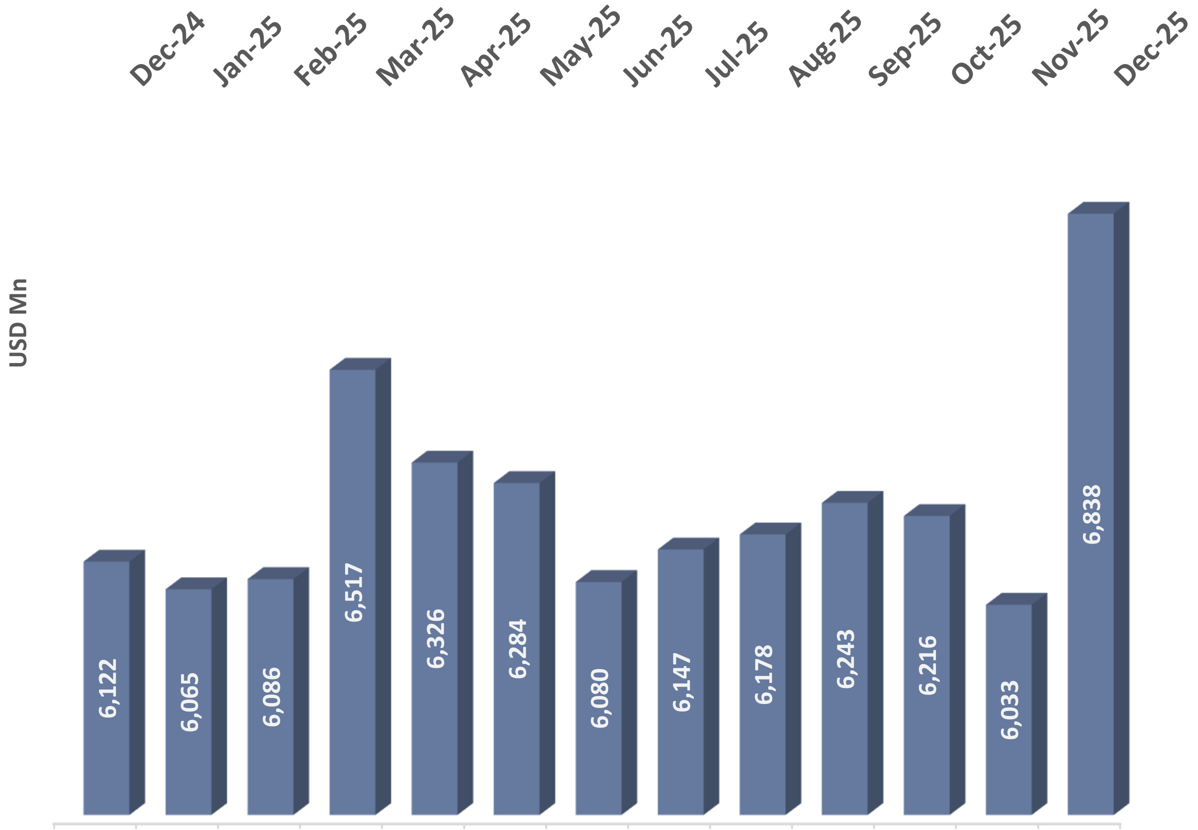
Private Credit MoM +1.8%, YoY +25.2%, YTD +25.2%



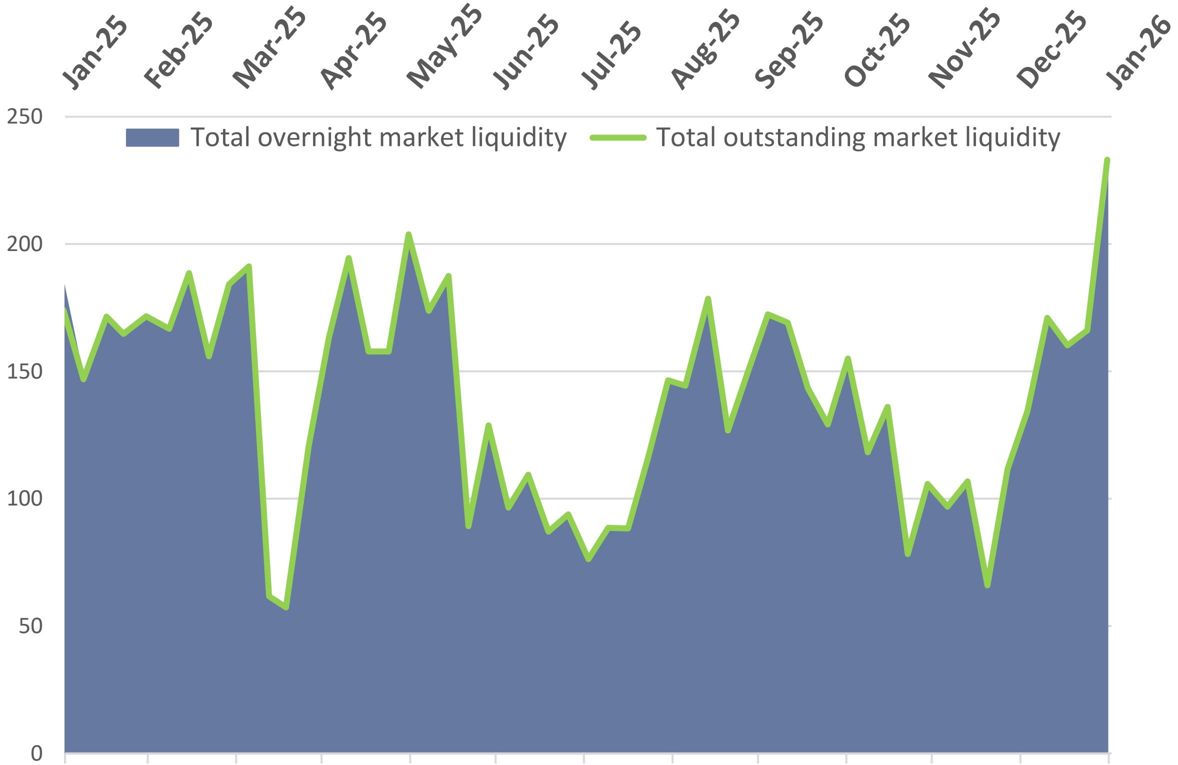
Source: CBSL

LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 792.0Mn to USD 6,838.0Mn in Dec 2025.



- Both overnight market liquidity and outstanding market liquidity increased in Jan-26 relative to the previous month. By end-Jan, both overnight and market liquidity stood at LKR 233.1Bn.



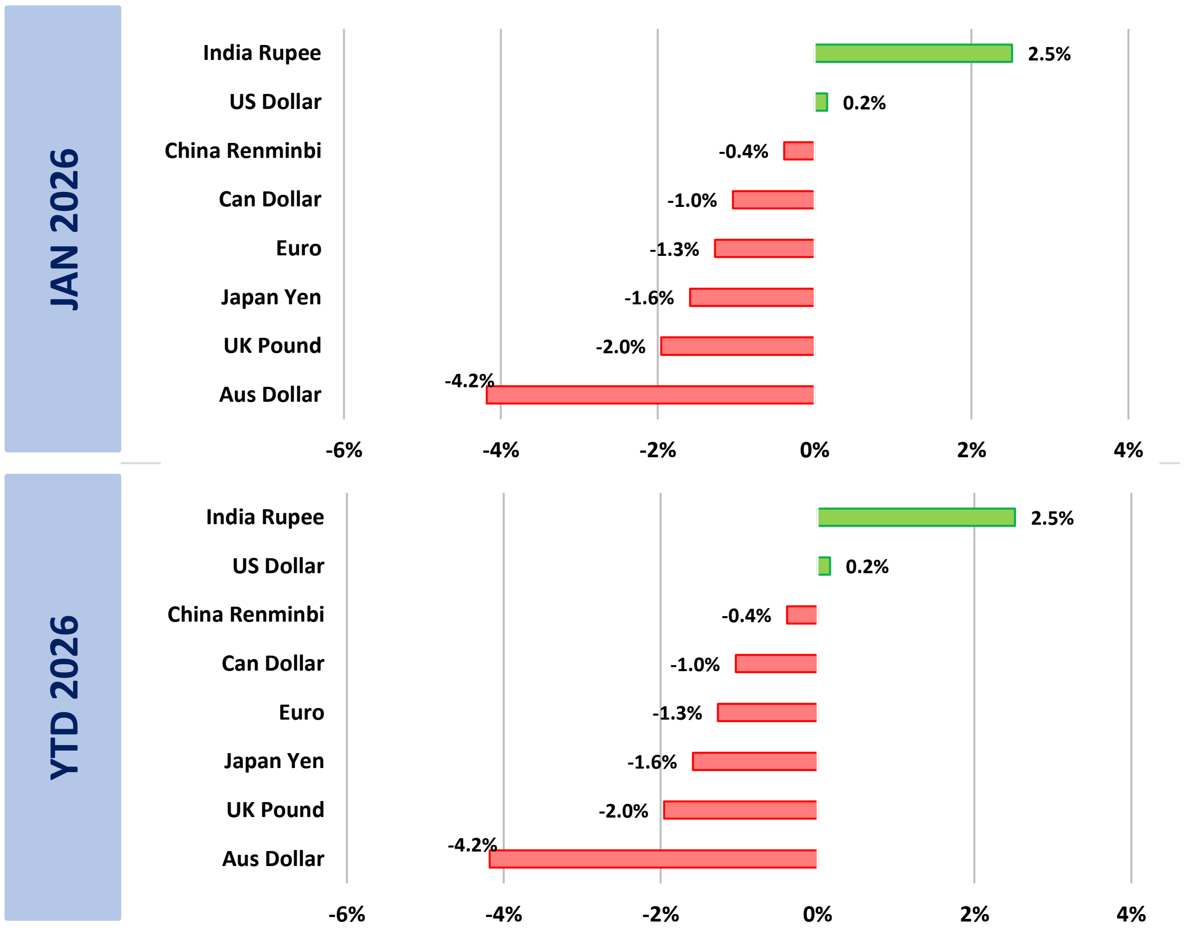
Note: total outstanding market liquidity represents overnight liquidity adjusted for outstanding amounts of term repo/reverse repo transactions of the central bank with market participants.

Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

Sri Lankan Rupee vs Global Currencies



GOVERNMENT SECURITIES – NEW ISSUES

First Capital

Bill and Bond auctions for Jan 2026

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
2-Jan-26	58,392		58,392
9-Jan-26	110,000		110,000
16-Jan-26	110,000	193,791	303,791
23-Jan-26	137,500		137,500
30-Jan-26	137,500		137,500
			747,183

Net settlements for Jan 2026

Net Settlement	Jan 2026	YTD
Maturities	714,803	714,803
Coupon Payment	156,732	156,732
New Issues	747,183	747,183
Excess/ (Deficit)	**(124,352)**	**(124,352)**

CBSL Holdings of Gov. Securities		YTD
As at End Jan 2026	2,508,900	
As at End Dec 2025	2,508,900	
Increase/ (Decrease)	**-**	**0**

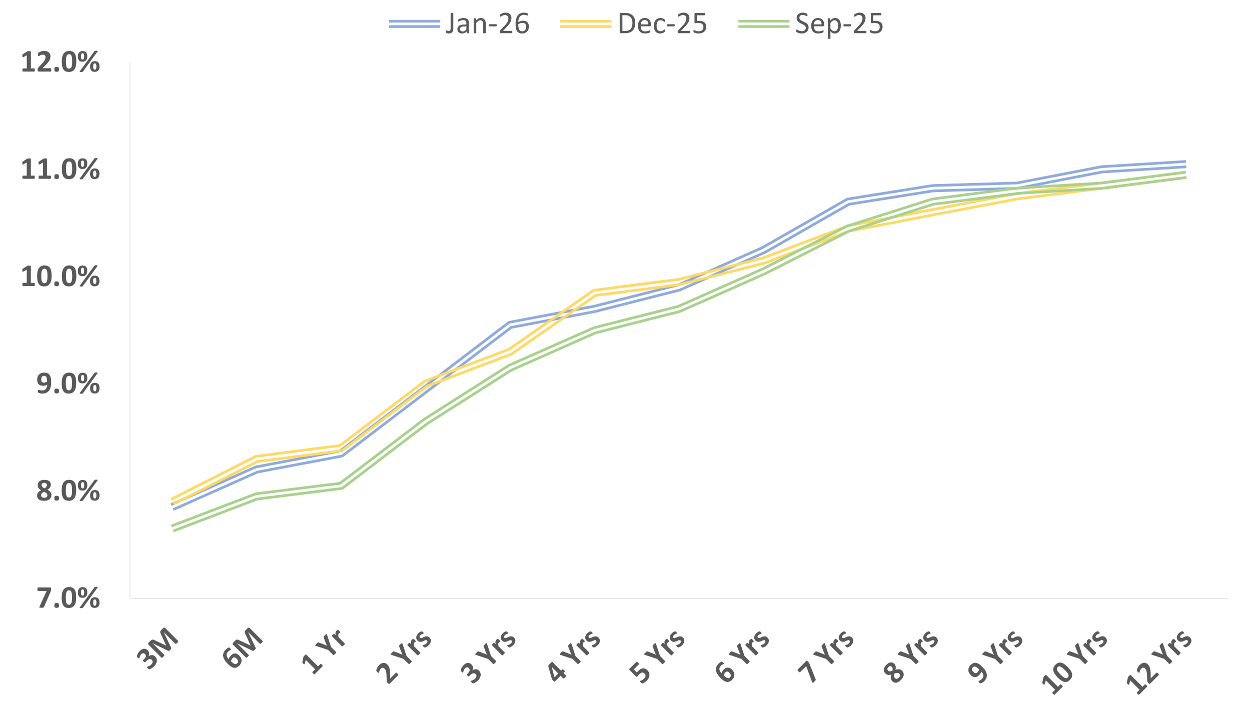
CBSL HOLDINGS OF GOV. SECURITIES…

…remained unchanged in Jan 2026

Source: CBSL

TREASURY BILLS AND BONDS – JAN 2026

The month opened on a constructive footing, with modest buying interest concentrated in short to mid-tenors, leading to marginal yield compression. However, mixed sentiment and muted volumes towards the end of the first week resulted in a mild uptick in yields, reinforced by higher weighted average yields at the early January T-Bill auction. In the second week, sentiment initially strengthened, supported by active trading and robust demand. As the week progressed, investor interest gradually softened following the T-Bond auction, with some selling pressure emerging at the short end of the curve and yields broadly trending upward at both T-Bill and T-Bond auctions. However, trading activity later recovered toward week's end. The third week was characterized by heightened early activity and selective buying interest at the long end, particularly in the 2035 maturity. Toward the end of the week, buying interest resurfaced despite softer mid-week sentiment. In the final week, market activity remained moderate to low amid fluctuating sentiment. The CBSL's decision to hold the OPR at 7.75% had a dampening effect on volumes. Nonetheless, declining T-Bill yields supported improved sentiment toward short-tenor maturities. Moreover, the expansion in CBSL's overnight liquidity which stood at LKR 233.13Bn at end 30th Jan 2026, underpinned the re-emergence of buying interest in the market.

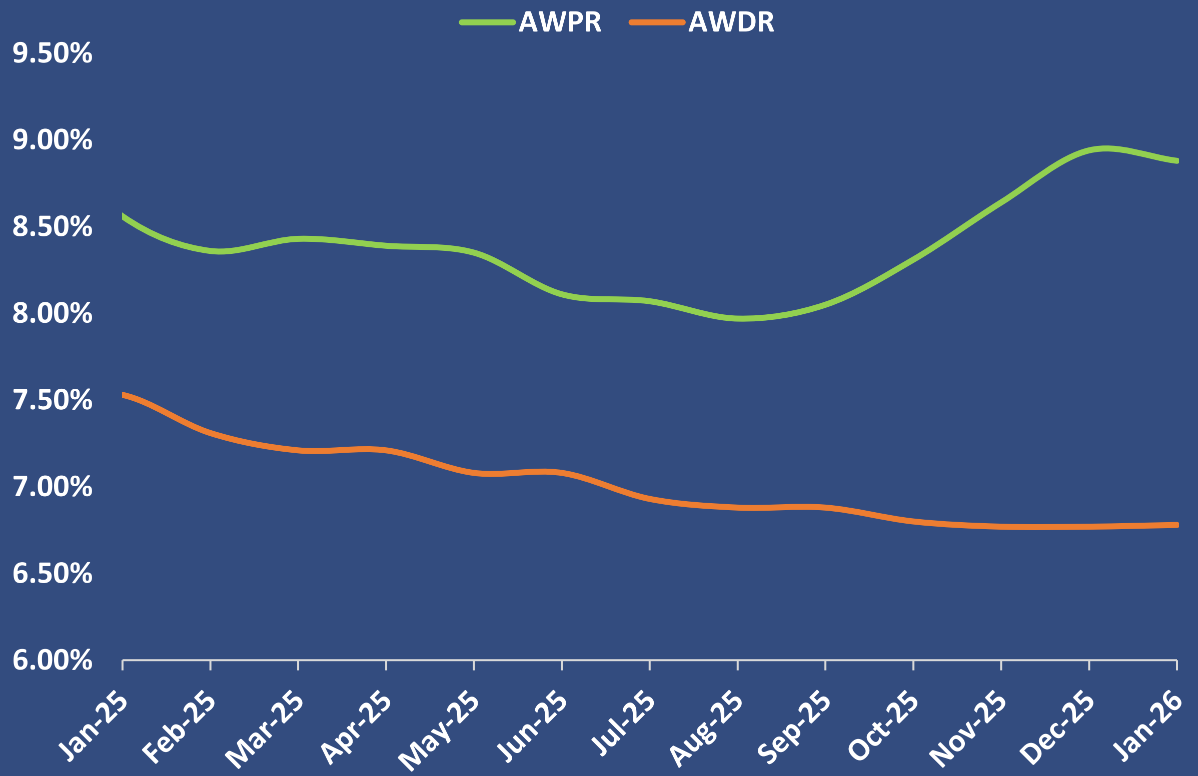


Interest Rate Change (bps)

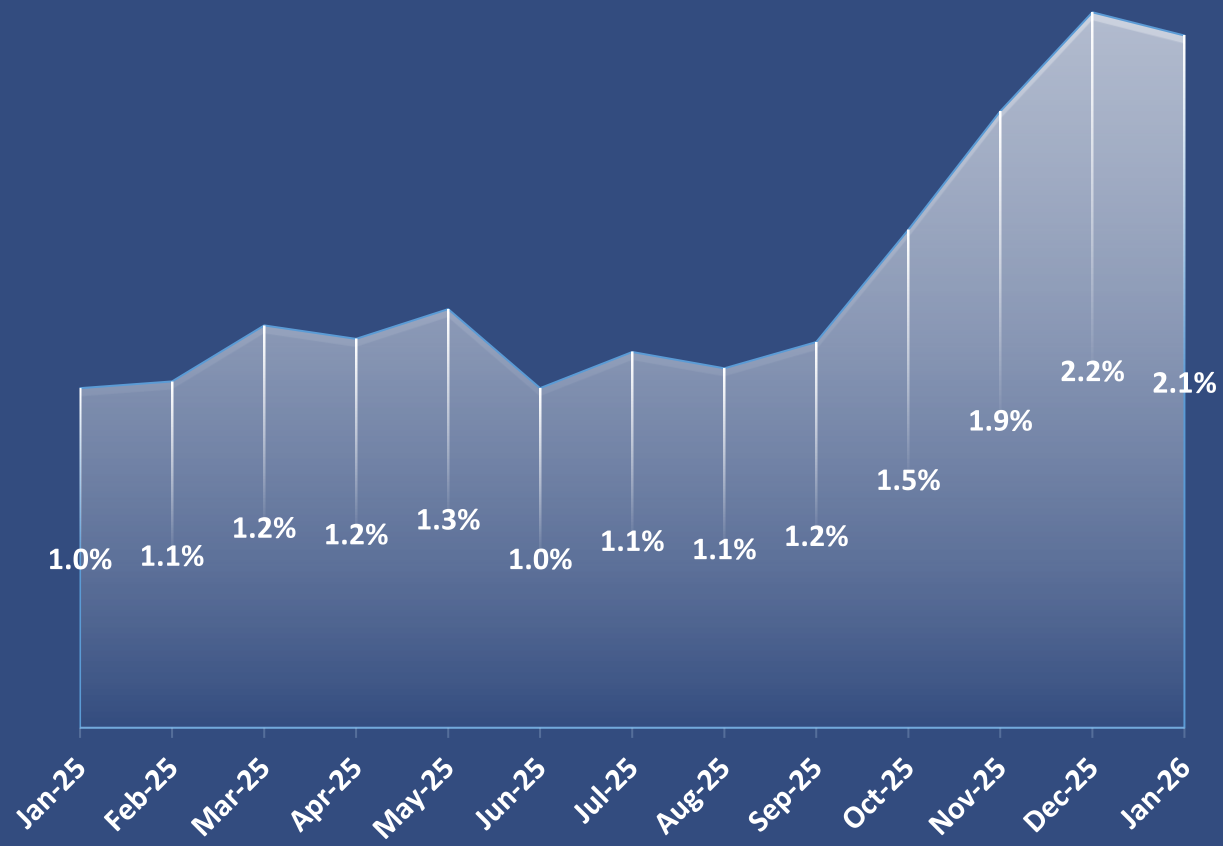
Tenure	Jan 2026	Dec 2025	Change (bps)	Sep 2025	Change (bps)
3M	7.85%	7.90%	-5	7.65%	+20
6M	8.20%	8.30%	-10	7.95%	+25
1 Yr	8.35%	8.40%	-5	8.05%	+30
2 Yrs	8.95%	9.00%	-5	8.65%	+30
3 Yrs	9.55%	9.30%	+25	9.15%	+40
4 Yrs	9.70%	9.85%	-15	9.50%	+20
5 Yrs	9.90%	9.95%	-5	9.70%	+20
6 Yrs	10.25%	10.15%	+10	10.05%	+20
7 Yrs	10.70%	10.45%	+25	10.45%	+25
8 Yrs	10.83%	10.60%	+23	10.70%	+13
9 Yrs	10.85%	10.75%	+10	10.80%	+5
10 Yrs	11.00%	10.85%	+15	10.85%	+15
12 Yrs	11.05%	10.95%	+10	10.95%	+10
15 Yrs	N/A	N/A	N/A	N/A	N/A
20 Yrs	N/A	N/A	N/A	N/A	N/A

Source: PDMO

AWPR vs AWDR



Interest Spread



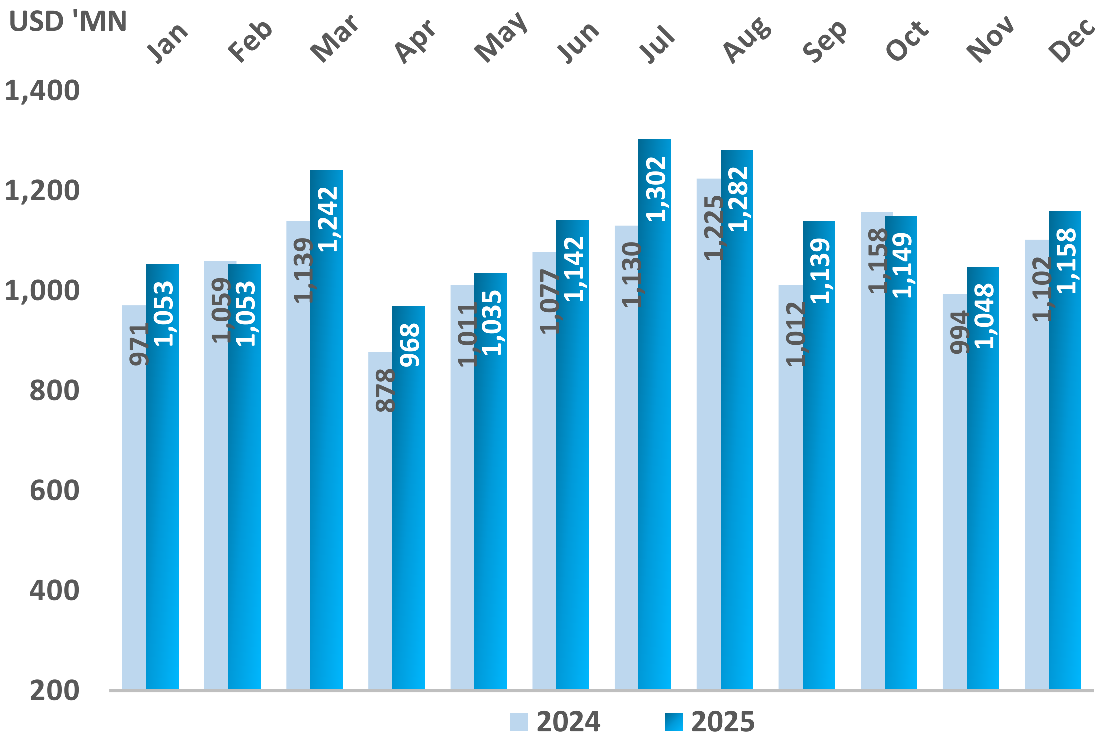
FINANCE SECTOR RATE MOVEMENTS

Source: CBSL

EXTERNAL SECTOR - DEC 2025 - EXPORTS

In Dec-25, exports stood at USD 1,158.0Mn, denoting a YoY uptick of 5.1%. This was primarily driven by a 7.9% (YoY) expansion in industrial exports alongside a 22.2% (YoY) increase in mineral and other exports. Textiles and garments, the largest component within the industrial exports segment grew by 5.4% YoY while gems, diamonds and jewelry, leather, travel goods and footwear and food beverage and tobacco also registered noteworthy expansions. Agricultural exports contacted by 4.3% YoY in Dec-25, partly owing to the adverse implications of Ditwah. While sea food and coconut exports rose in Dec-25, tea exports and spices both dipped, dominating the contraction in the overall agricultural exports segment.

Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Industrial Exports			
- Dec	841.5	908.0	7.9
- YTD	9,946.9	10,460.8	5.2
Agricultural			
- Dec	256.5	245.4	-4.3
- YTD	2,774.5	3,072.0	10.7
Mineral and other Exports			
- Dec	3.7	4.5	22.2
- YTD	50.7	48.6	-4.2
Total			
- **Dec**	1,101.8	1,158.0	5.1
- **YTD**	12,772.0	13,581.4	6.3



Source: CBSL

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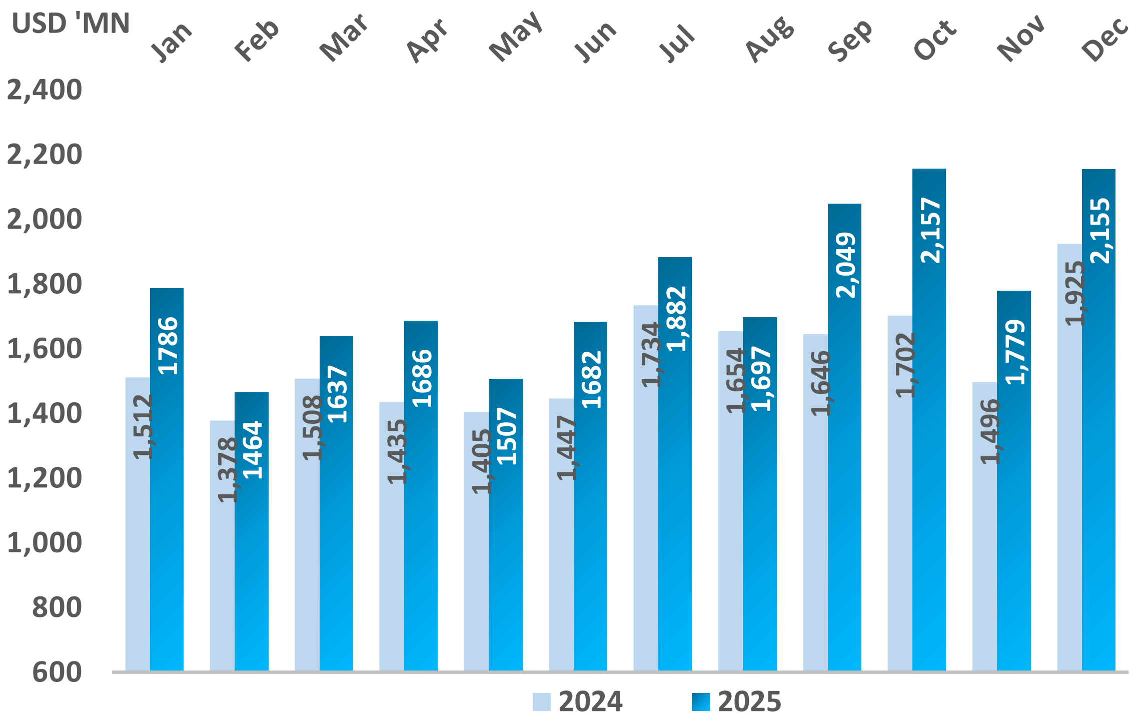
In Dec-25 imports climbed to USD 2,155.2Mn, registering a YoY uptick of 12.0%. All subcomponents rose during the month, with the consumer goods segment denoting the highest expansion (53.5% YoY) while investment goods and others and intermediate goods rose by modest 3.7% and 0.3% respectively. Within the broader consumer goods category, it was non-food imports that drove this uptick, having risen by 170.1% YoY, while food and beverage imports declined by 21.1% YoY during the period under review.

Category	2024 (USD 'Mn)	2025 (USD 'Mn)	Change (%)
Consumer goods			
- Dec	397.6	610.2	53.5
- YTD	3,465.7	5,518.3	59.2
Intermediate			
- Dec	1,124.9	1,127.9	0.3
- YTD	11,914.5	11,858.9	-0.5
Investment goods and other			
- Dec	402.0	417.0	3.7
- YTD	3,461.2	4,102.8	18.5
Total			
- **Dec**	1,924.5	2,155.2	12.0
- **YTD**	18,841.4	21,479.9	14.0



EXTERNAL SECTOR - DEC 2025

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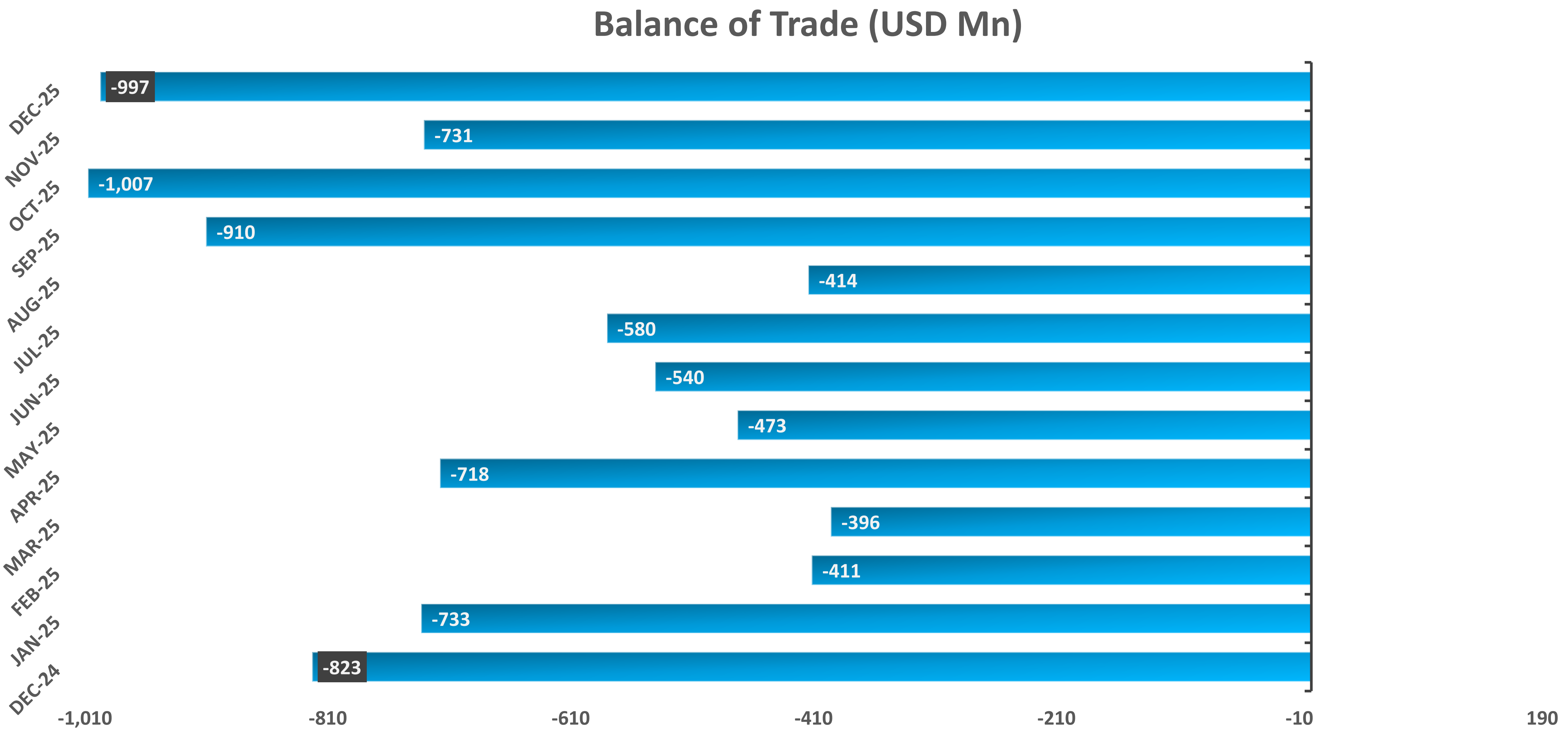
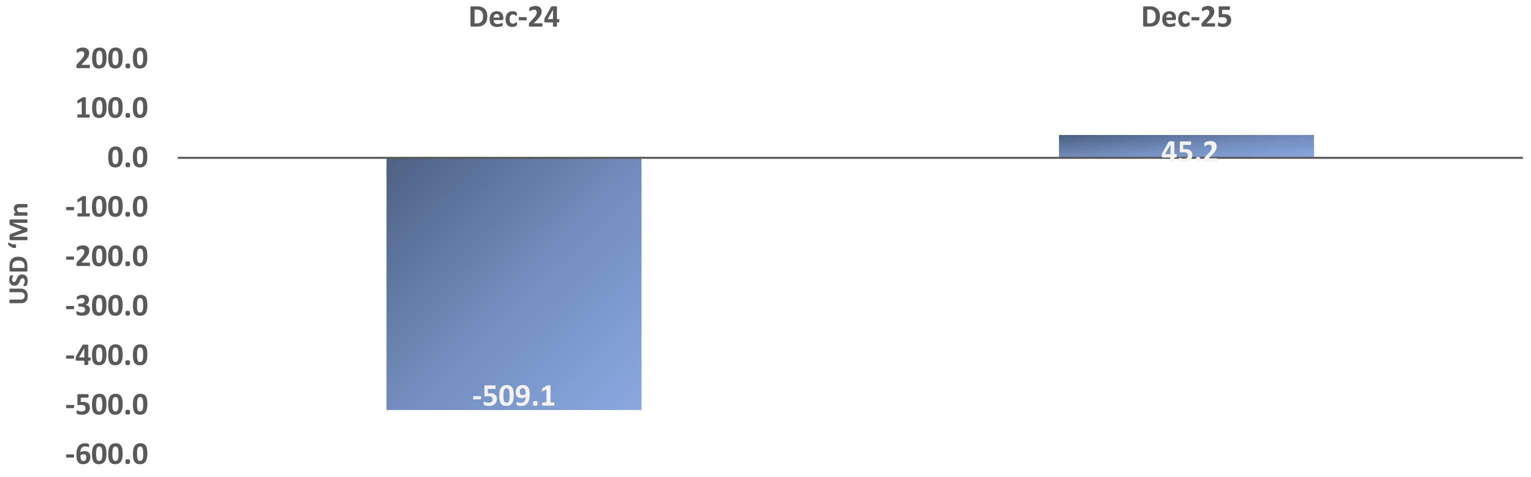
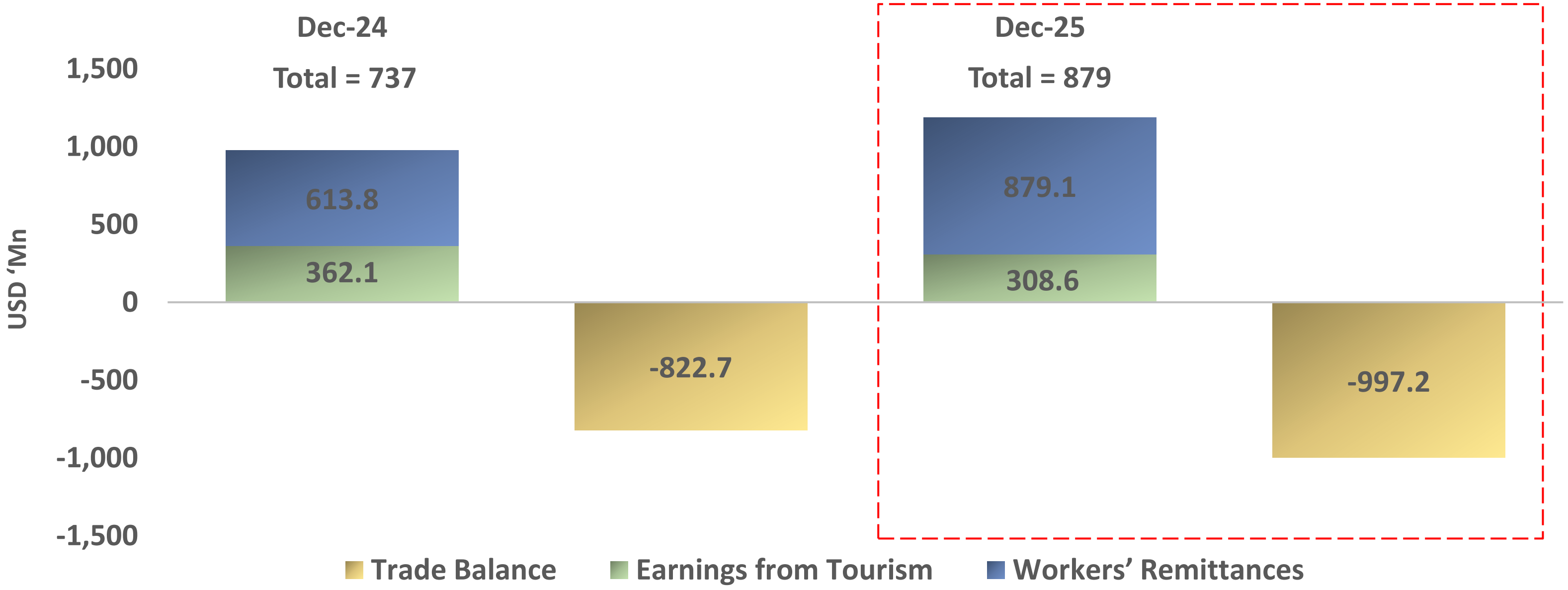


Source: CBSL

The Current Account Balance for Dec-25 recorded a surplus of USD 45.2Mn compared to a deficit of USD 509.1Mn seen in Dec-24.



Workers' Remittances increased to USD 879.1Mn in Dec-25 (+43.2%YoY) while Earnings from Tourism declined to USD 308.6Mn (-14.8%YoY).



CURRENT ACCOUNT BALANCE IMPROVED YOY IN DEC-25

Dec USD 'Mn	2024	2025	Change (%)
Trade Balance	-822.7	-997.2	
Earnings from Tourism	362.1	308.6	-14.8
Workers' Remittances	613.8	879.1	+43.2

YTD USD 'Mn	2024	2025	Change (%)
Trade Balance	-6,069.4	-7,898.6	
Earnings from Tourism	3,168.6	3,219.2	+1.6
Workers' Remittances	6,575.4	8,076.2	+22.8

TOURIST ARRIVALS - JAN 2026

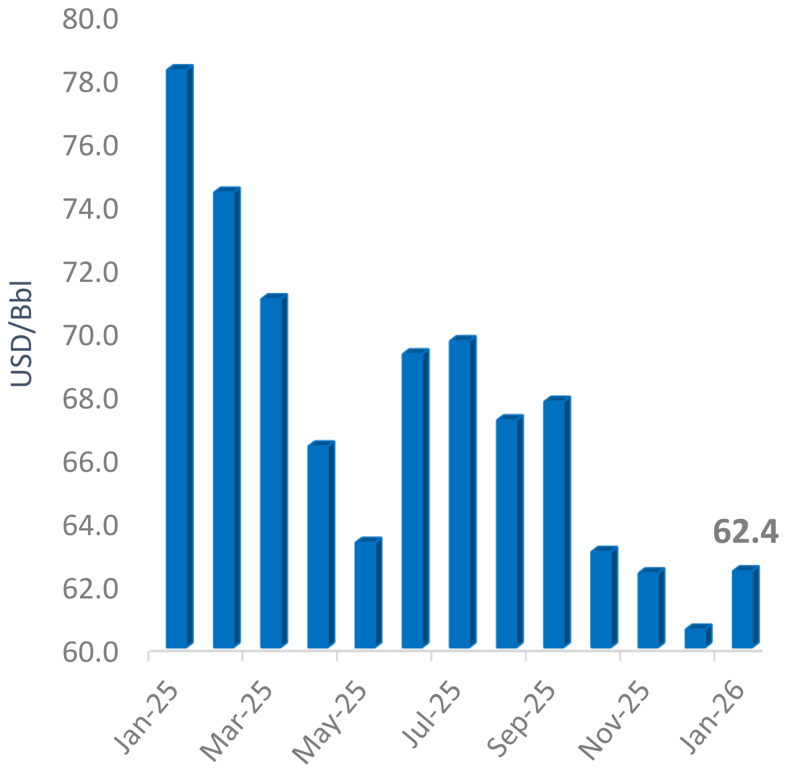
[Jan 277,327: UP +9.7%YoY] [MoM: UP +7.1%]

Total tourist arrivals for Jan-26 reached 277,327, denoting a YoY uptick of 9.7% and a MoM uptick of 7.1%. India emerged as the top source marked accounting for 19.0% of total arrivals during the month. This was followed by the United Kingdom, the Russian Federation, Germany and China, which made up 11.0%, 10.0%, 6.0% and 5.0% of total arrivals respectively.

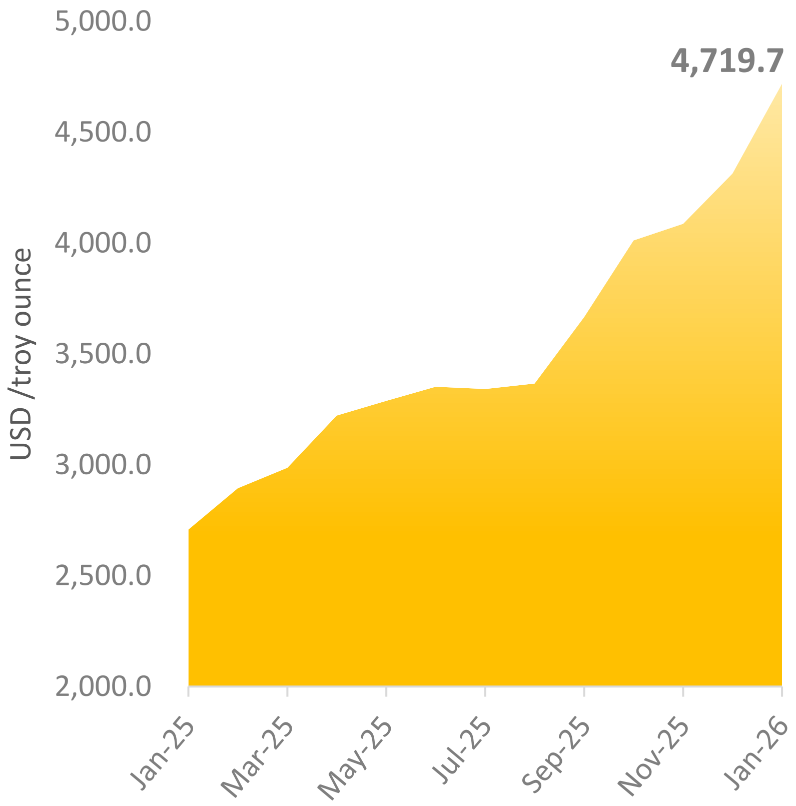
Source: SLTDA

COMMODITY PRICES - JAN 2026

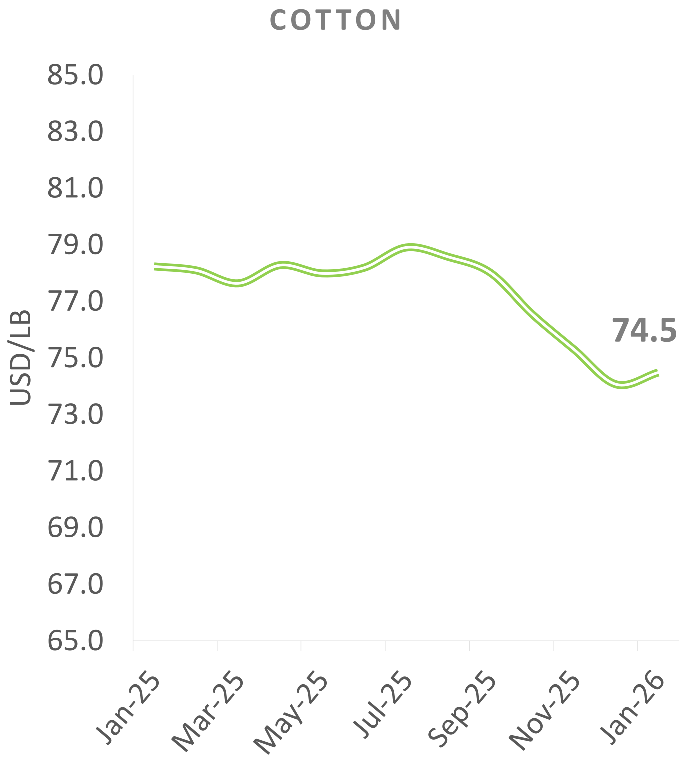
Crude oil



Gold



Cotton

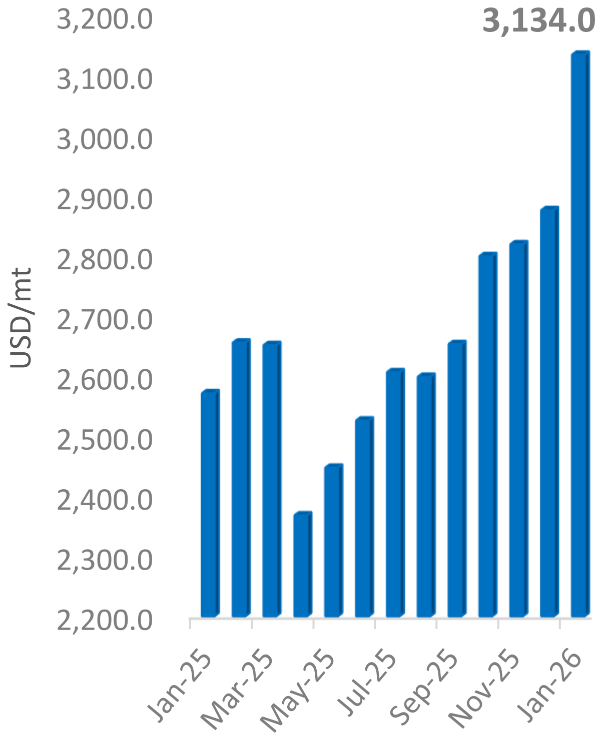


Note: crude oil prices have been taken considering simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

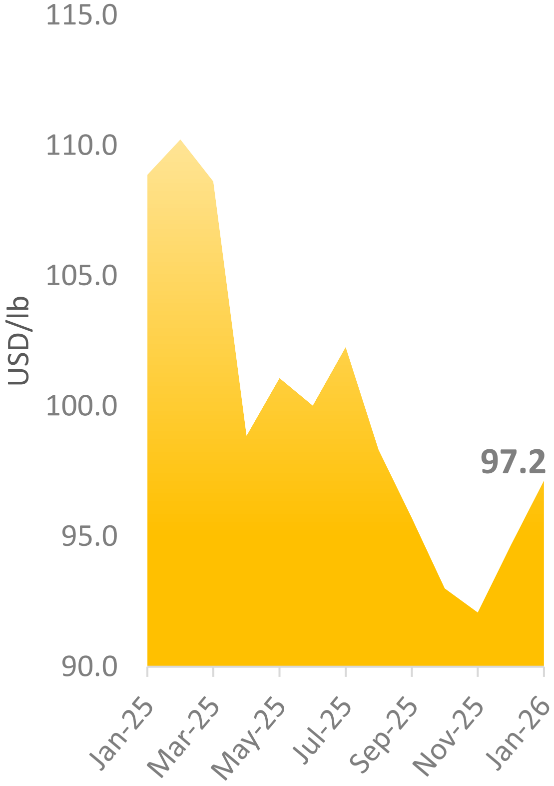
Source: IMF, World Bank

COMMODITY PRICES - JAN 2026 CONT'D

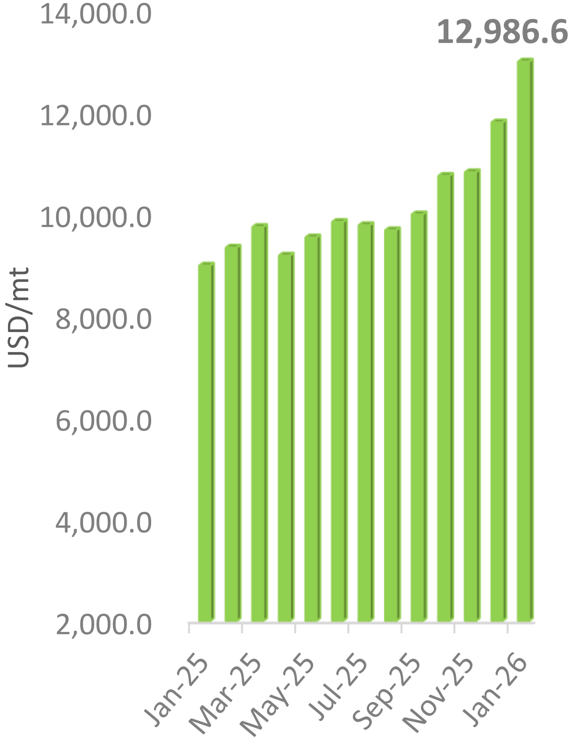
Aluminum



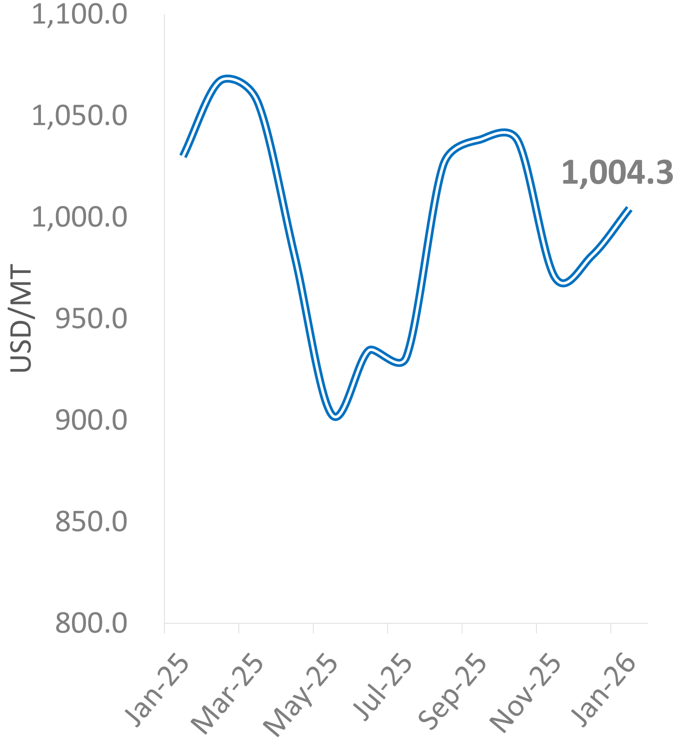
Rubber



Copper

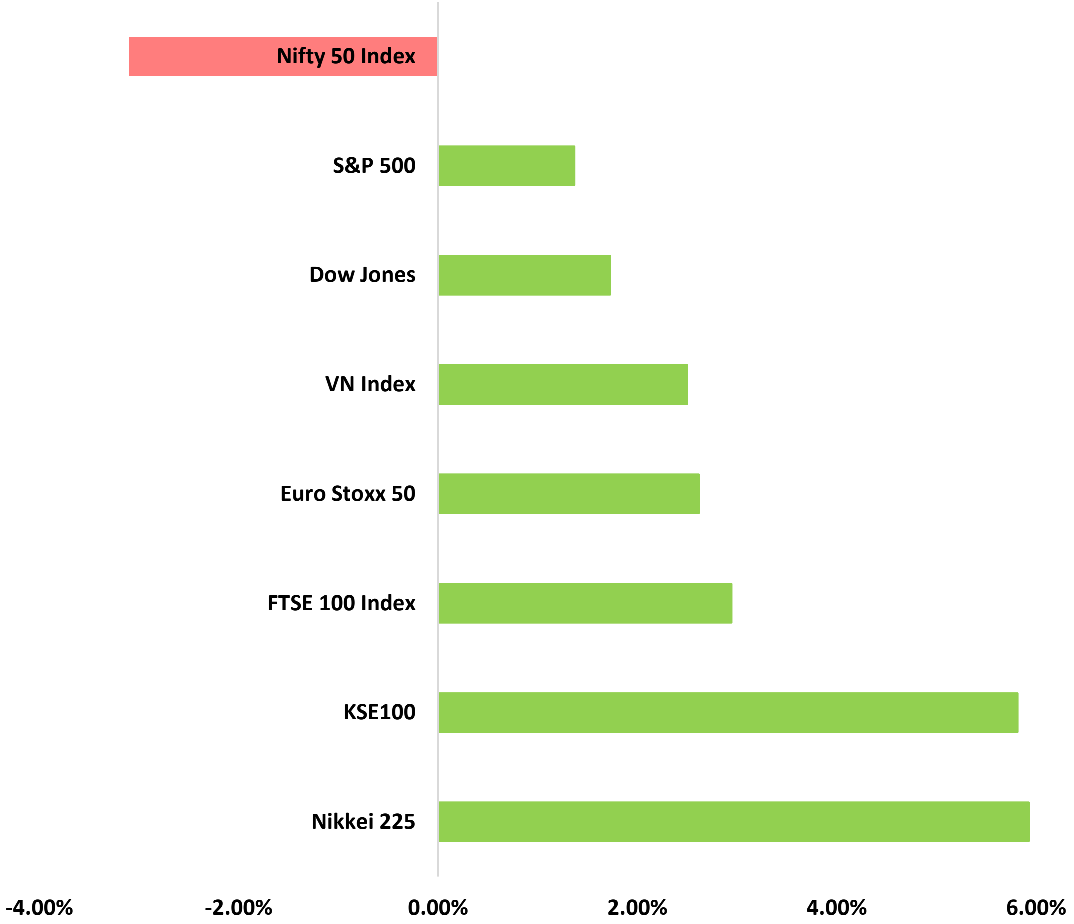


Palm oil



Note: price of no. 3 rubber smoked sheets have been taken as the rubber prices whilst for palm oil, prices of Malaysia palm oil futures have been considered

GLOBAL MARKET - JAN 2026



Fed Holds Rates as Window for Another Powell Cut Begins to Close

The Federal Reserve maintained interest rates at 3.50% to 3.75% during its first policy meeting of 2026, a decision widely anticipated amid solid economic growth and elevated inflation at 2.7%. The Federal Open Market Committee voted 10-2 for the hold, with two governors dissenting in favor of a rate cut.

Tariffs and AI's downside pose top global risks for business, World Economic Forum says

Global power rivalries and strategic standoffs top the list of most severe near-term risks heading into 2026, according to the World Economic Forum's most recent Global Risks Report. The report captures a shifting landscape where geoeconomic confrontation leaps to the top spot on the list of business worries over the next two years. The issue that has soared higher and faster than any other in the survey is the potential for adverse outcomes of artificial intelligence.

Singapore's economy grows 6.9% y/y in Q4 2025, higher than advance estimate

Singapore's economy grew by 6.9% year-on-year in the fourth quarter of 2025, surpassing the advance estimate of 5.7% and resulting in a full-year 2025 growth of 5.0%. This growth was driven by sectors including manufacturing, wholesale trade, and finance & insurance, with AI-related investment boosting the electronics cluster.

Source: Invseting.com, Bloomberg, CNBC & Reuters World

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Contact Us

First Capital Holdings PLC
No: 02, Deal Place,
Colombo 00300,
Sri Lanka.
E: research@firstcapital.lk

Dimantha Mathew
Chief Research & Strategy Officer
T: +94 11 2639 853
E: dimantha@firstcapital.lk

Charith Gamage
Vice President – Research
T: +94 11 2639 863
E: charith@firstcapital.lk

Ranjan Ranatunga
Assistant Vice President – Research
T: +94 11 2639 863
E: ranjan@firstcapital.lk

Shahana Kanagaratnam
Senior Assistant Manager – Research
T: +94 11 2639 866
E: shahana@firstcapital.lk

Akna Tennakoon
Senior Research Analyst
T: +94 11 2639 866
E: akna@firstcapital.lk

Dilhari Dias
Research Analyst
T: +94 11 2639 866
E: dilhari@firstcapital.lk

Imashi Sellapperuma
Research Analyst
T: +94 11 2639 866
E: imashi@firstcapital.lk

Manusha Kandanaarachchi
Research Associate
T: +94 11 2639 866
E: manusha@firstcapital.lk

Salaama Sanoon
Research Associate
T: +94 11 2639 866
E: salaama@firstcapital.lk

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A Janashakthi Group Company